

**REPORT OF THE AUDIT OF THE
HANCOCK COUNTY
FISCAL COURT**

**For The Fiscal Year Ended
June 30, 2008**



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CRIT LUALLEN
AUDITOR OF PUBLIC ACCOUNTS

To the People of Kentucky
Honorable Steven L. Beshear, Governor
Jonathan Miller, Secretary
Finance and Administration Cabinet
Honorable Jack McCaslin, Hancock County Judge/Executive
Members of the Hancock County Fiscal Court

The enclosed report prepared by Tichenor & Associates, LLP, Certified Public Accountants, presents the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Hancock County, Kentucky, as of and for the year ended June 30, 2008, which collectively comprise the County's basic financial statements.

We engaged Tichenor & Associates, LLP, to perform the audit of these financial statements. We worked closely with the firm during our report review process; Tichenor & Associates, LLP, evaluated the Hancock County's internal controls and compliance with applicable laws and regulations.

Respectfully submitted,

A handwritten signature in cursive script, reading "Crit Luallen".

Crit Luallen
Auditor of Public Accounts

Enclosure



EXECUTIVE SUMMARY

**AUDIT EXAMINATION OF THE
HANCOCK COUNTY FISCAL COURT**

June 30, 2008

Tichenor & Associates, LLP has completed the audit of the Hancock County Fiscal Court for fiscal year ended June 30, 2008. We have issued unqualified opinions on the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information.

In accordance with OMB Circular A-133, we have issued an unqualified opinion on the compliance requirements that are applicable to Hancock County's major federal programs: Airport Improvement Program (CFDA #20.106).

Financial Condition:

The fiscal court had net assets of \$14,171,283 as of June 30, 2008. The fiscal court had unrestricted net assets of \$2,436,624 in its governmental activities as of June 30, 2008, with total net assets of \$6,904,976. In its business-type activities, total net cash and cash equivalents were \$854,927 with total net assets of \$7,266,307. The fiscal court had total debt principal as of June 30, 2008 of \$1,383,103 with \$360,270 due within the next year.

Report Comment:

- 2008-01 Lack Of Segregation Of Duties Within The Occupational Tax Department
- 2008-02 The Airport Board Does Not Have An Accounting System
- 2008-03 The Airport Board's Bank Accounts Have Never Been Reconciled
- 2008-04 The Airport Board Does Not Maintain A Fixed Asset Listing
- 2008-05 The Airport Board Fund Was Not Presented In Prior Year

Deposits:

The fiscal court's deposits as of June 30, 2008 were exposed to custodial credit risk as follows:

- Uncollateralized and Uninsured \$793,041

CONTENTS

PAGE

INDEPENDENT AUDITOR’S REPORT.....	1
HANCOCK COUNTY OFFICIALS	3
STATEMENT OF NET ASSETS - MODIFIED CASH BASIS.....	5
STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS	7
BALANCE SHEET - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS	10
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS	12
RECONCILIATION OF THE STATEMENT OF REVENUES,EXPENDITURES, AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS	15
STATEMENT OF FUND NET ASSETS - PROPRIETARY FUNDS - MODIFIED CASH BASIS	17
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS PROPRIETARY FUNDS - MODIFIED CASH BASIS	19
STATEMENT OF CASH FLOWS- PROPRIETARY FUNDS - MODIFIED CASH BASIS.....	21
NOTES TO FINANCIAL STATEMENTS.....	23
BUDGETARY COMPARISON SCHEDULES - MAJOR FUNDS	38
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION	41
COMBINING BALANCE SHEET- NON-MAJOR GOVERNMENTAL FUNDS - MODIFIED CASH BASIS	43
COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES - NON- MAJOR GOVERNMENTAL FUNDS - MODIFIED CASH BASIS.....	45
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS	48
NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS.....	49
REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS	51
REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133.....	54
SCHEDULE OF FINDINGS AND QUESTIONED COSTS	57
APPENDIX A:	
CERTIFICATION OF COMPLIANCE - LOCAL GOVERNMENT ECONOMIC ASSISTANCE PROGRAM	

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To the People of Kentucky
Honorable Steven L. Beshear, Governor
Jonathan Miller, Secretary
Finance and Administration Cabinet
Honorable Jack McCaslin, Hancock County Judge/Executive
Members of the Hancock County Fiscal Court

Independent Auditor's Report

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Hancock County, Kentucky, as of and for the year ended June 30, 2008, which collectively comprise the County's basic financial statements, as listed in the table of contents. These financial statements are the responsibility of the Hancock County Fiscal Court. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, and the Audit Guide for Fiscal Court Audits issued by the Auditor of Public Accounts, Commonwealth of Kentucky. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

As described in Note 1, Hancock County, Kentucky, prepares its financial statements in accordance with the modified cash basis, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Hancock County, Kentucky, as of June 30, 2008, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with the basis of accounting described in Note 1.

The County has chosen not to present the management's discussion and analysis that the Governmental Accounting Standards Board (GASB) has determined is necessary to supplement, although not required to be part of, the basic financial statements. The budgetary comparison information is not a required part of the basic financial statements but is supplementary information required by GASB. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the budgetary comparison information. However, we did not audit it and express no opinion on it.

To the People of Kentucky
Honorable Steven L. Beshear, Governor
Jonathan Miller, Secretary
Finance and Administration Cabinet
Honorable Jack McCaslin, Hancock County Judge/Executive
Members of the Hancock County Fiscal Court

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Hancock County, Kentucky's basic financial statements. The accompanying combining fund financial statements are presented for purposes of additional analysis and are not a required part of the basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, Audits of States, Local Governments and Non-Profit Organizations, and is not a required part of the basic financial statements. The combining fund financial statements and the schedule of expenditures of federal awards have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.

In accordance with Government Auditing Standards, we have also issued our report dated June 26, 2009, on our consideration of Hancock County, Kentucky's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

Based on the results of our audit, we present the accompanying schedule of findings and questioned costs, included herein, which discusses the following report comments:

- 2008-01 Lack Of Segregation Of Duties Within The Occupational Tax Department
- 2008-02 The Airport Board Does Not Have An Accounting System
- 2008-03 The Airport Board's Bank Accounts Have Never Been Reconciled
- 2008-04 The Airport Board Does Not Maintain A Fixed Asset Listing
- 2008-05 The Airport Fund Was Not Presented In Prior Year

Respectfully submitted,

Tichenor & Associates, LLP

Tichenor & Associates, LLP

June 26, 2009

HANCOCK COUNTY OFFICIALS

For The Year Ended June 30, 2008

Fiscal Court Members:

Jack B. McCaslin	County Judge/Executive
James W. Hodskins	Magistrate
Franklin W. Estes	Magistrate
Michael C. Powers	Magistrate
Larry G. Sosh	Magistrate

Other Elected Officials:

Paul Madden Jr.	County Attorney
Trina M. Ogle	County Clerk
Noel J. Quinn	Circuit Court Clerk
Ralph D. Bozarth	Sheriff
Dennis Long	Property Valuation Administrator
David C. Gibson	Coroner

Appointed Personnel:

Melissa D. Carr	County Treasurer
Stacy L. Bozarth	Occupational Tax Administrator

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HANCOCK COUNTY
STATEMENT OF NET ASSETS - MODIFIED CASH BASIS

June 30, 2008

HANCOCK COUNTY
STATEMENT OF NET ASSETS - MODIFIED CASH BASIS

June 30, 2008

	Primary Government		
	Governmental	Business-Type	
	Activities	Activities	Totals
ASSETS			
Current Assets:			
Cash and Cash Equivalents	\$ 2,535,150	\$ 854,927	\$ 3,390,077
Asset Held for Resale	197,650		197,650
Receivables	367,600		367,600
Total Current Assets	<u>3,100,400</u>	<u>854,927</u>	<u>3,955,327</u>
Noncurrent Assets:			
Capital Assets - Net of Accumulated Depreciation			
Land	862,102	1,627,176	2,489,278
Land Improvements		5,644,204	5,644,204
Buildings	1,836,552		1,836,552
Equipment	551,372		551,372
Vehicles	431,839		431,839
Infrastructure	645,814		645,814
Total Noncurrent Assets	<u>4,327,679</u>	<u>7,271,380</u>	<u>11,599,059</u>
Total Assets	<u>7,428,079</u>	<u>8,126,307</u>	<u>15,554,386</u>
LIABILITIES			
Current Liabilities:			
Financing Obligations	295,270		295,270
Bond Payable		65,000	65,000
Total Current Liabilities	<u>295,270</u>	<u>65,000</u>	<u>360,270</u>
Noncurrent Liabilities:			
Bonds Payable	50,000	795,000	845,000
Financing Obligations	177,833		177,833
Total Noncurrent Liabilities	<u>227,833</u>	<u>795,000</u>	<u>1,022,833</u>
Total Liabilities	<u>523,103</u>	<u>860,000</u>	<u>1,383,103</u>
NET ASSETS			
Invested in Capital Assets,			
Net of Related Debt	3,804,576	6,411,380	10,215,956
Restricted	663,776		663,776
Unrestricted	2,436,624	854,927	3,291,551
Total Net Assets	<u>\$ 6,904,976</u>	<u>\$ 7,266,307</u>	<u>\$ 14,171,283</u>

The accompanying notes are an integral part of the financial statements.

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HANCOCK COUNTY
STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS
For The Year Ended June 30, 2008

HANCOCK COUNTY
STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS

For The Year Ended June 30, 2008

<u>Functions/Programs</u>	<u>Expenses</u>	<u>Program Revenues Received</u>		
		<u>Charges for</u>	<u>Operating</u>	<u>Capital</u>
		<u>Services</u>	<u>Grants and</u>	<u>Grants and</u>
			<u>Contributions</u>	<u>Contributions</u>
Primary Government:				
Governmental Activities:				
General Government	\$ 1,957,680	\$ 294,821	\$ 374,871	\$
Protection to Persons and Property	1,354,810	19,235	143,180	
General Health and Sanitation	239,344			
Social Services	255,092			
Recreation and Culture	345,627			16,896
Roads	1,390,118		936,227	255,125
Bus Service	278,927			
Interest on Long-Term Debt	8,585			
Total Governmental Activities	<u>5,830,183</u>	<u>314,056</u>	<u>1,454,278</u>	<u>272,021</u>
Business-type Activities:				
Airport Board	38,539			4,373,582
Total Business-type Activities	<u>38,539</u>			<u>4,373,582</u>
Total Primary Government	<u>\$ 5,868,722</u>	<u>\$ 314,056</u>	<u>\$ 1,454,278</u>	<u>\$ 4,645,603</u>

General Revenues:

Taxes:

Real Property Taxes

Personal Property Taxes

Motor Vehicle Taxes

Occupational Taxes

Other Taxes

In Lieu of Taxes

Excess Fees

Miscellaneous Revenues

Reimbursements

Interest Received

Total General Revenues and Transfers

Change in Net Assets

Net Assets - Beginning (Restated)

Net Assets - Ending

The accompanying notes are an integral part of the financial statements.

HANCOCK COUNTY
STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS
For The Year Ended June 30, 2008
(Continued)

Net (Expenses) Revenues and			
Changes in Net Assets			
Primary Government			
Governmental	Business-Type		
Activities	Activities	Totals	
\$ (1,287,988)	\$	\$ (1,287,988)	
(1,192,395)		(1,192,395)	
(239,344)		(239,344)	
(255,092)		(255,092)	
(328,731)		(328,731)	
(198,766)		(198,766)	
(278,927)		(278,927)	
(8,585)		(8,585)	
(3,789,828)		(3,789,828)	
	4,335,043	4,335,043	
	4,335,043	4,335,043	
\$ (3,789,828)	\$ 4,335,043	\$ 545,215	
233,946		233,946	
22,070		22,070	
39,229		39,229	
2,813,267		2,813,267	
159,408		159,408	
14,499		14,499	
169,149		169,149	
210,659	411	211,070	
66,890		66,890	
70,845	21,385	92,230	
3,799,962	21,796	3,821,758	
10,134	4,356,839	4,366,973	
6,894,842	2,909,468	9,804,310	
\$ 6,904,976	\$ 7,266,307	\$ 14,171,283	

The accompanying notes are an integral part of the financial statements.

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HANCOCK COUNTY
BALANCE SHEET - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS

June 30, 2008

HANCOCK COUNTY
BALANCE SHEET - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS

June 30, 2008

	General Fund	Road Fund	LGEA Fund	Non- Major Funds	Total Governmental Funds
ASSETS					
Cash and Cash Equivalents	\$ 1,674,421	\$ 151,962	\$ 458,614	\$ 249,200	\$ 2,534,197
Total Assets	<u>1,674,421</u>	<u>151,962</u>	<u>458,614</u>	<u>249,200</u>	<u>2,534,197</u>
FUND BALANCES					
Reserved for:					
Encumbrances	199,236	215,489	3,140	16,264	434,129
Landfill Postclosure	205,309				205,309
Capital Projects				24,338	24,338
Unreserved:					
General Fund	1,269,876				1,269,876
Special Revenue Funds		(63,527)	455,474	208,598	600,545
Total Fund Balances	<u>\$ 1,674,421</u>	<u>\$ 151,962</u>	<u>\$ 458,614</u>	<u>\$ 249,200</u>	<u>\$ 2,534,197</u>

Reconciliation of the Balance Sheet-Governmental Funds to Statement of Net Assets:

Total Fund Balances	\$ 2,534,197
Amounts Reported For Governmental Activities In The Statement Of Net Assets Are Different Because:	
Capital Assets Used In Governmental Activities Are Not Financial Resources And Therefore Are Not Reported In The Funds.	8,210,289
Accumulated Depreciation	(3,882,610)
Asset Held For Resale	197,650
Internal Service Fund Is Used by Management to Charge the Cost of Health Insurance to Individual Funds. The Assets and Liabilities Are Included in Governmental Activities on the Statement of Net Assets.	953
Receivables Reported At The Government-wide Level Are Not Current Financial Resources And Therefore Are Not Reported In The Funds	367,600
Long-term Debt Is Not Due And Payable In The Current Period And, Therefore, Is Not Reported In The Funds.	
Revenue Bonds	(50,000)
Financing Obligations	(473,103)
Net Assets Of Governmental Activities	<u>\$ 6,904,976</u>

The accompanying notes are an integral part of the financial statements.

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HANCOCK COUNTY
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS

For The Year Ended June 30, 2008

HANCOCK COUNTY
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS

For The Year Ended June 30, 2008

	<u>General Fund</u>	<u>Road Fund</u>	<u>LGEA Fund</u>
REVENUES			
Taxes	\$ 3,204,438	\$	\$
In Lieu Tax Payments	14,499		
Excess Fees	169,149		
Licenses and Permits	34,454		
Intergovernmental	397,521	1,019,451	171,901
Charges for Services	255,957		
Miscellaneous	227,028	39,587	
Interest	48,680	6,052	11,760
Total Revenues	<u>4,351,726</u>	<u>1,065,090</u>	<u>183,661</u>
EXPENDITURES			
General Government	1,153,538		
Protection to Persons and Property	998,274		1,049
General Health and Sanitation	236,044		3,300
Social Services	210,279		14,100
Recreation and Culture	338,848		3,719
Roads		1,577,954	
Airports	278,927		
Debt Service		7,287	
Capital Projects			
Administration	917,676	143,502	
Total Expenditures	<u>4,133,586</u>	<u>1,728,743</u>	<u>22,168</u>
Excess (Deficiency) of Revenues Over Expenditures Before Other Financing Sources (Uses)	<u>218,140</u>	<u>(663,653)</u>	<u>161,493</u>
Other Financing Sources (Uses)			
Transfers To Other Funds	(543,998)	(125,000)	
Bond Proceeds			
Transfers From Other Funds		508,000	
Financing Obligation Proceeds	100,000	306,095	
Total Other Financing Sources (Uses)	<u>(443,998)</u>	<u>689,095</u>	
Net Change in Fund Balances	(225,858)	25,442	161,493
Fund Balances - Beginning (Restated)	1,900,279	126,520	297,121
Fund Balances - Ending	<u>\$ 1,674,421</u>	<u>\$ 151,962</u>	<u>\$ 458,614</u>

The accompanying notes are an integral part of the financial statements.

HANCOCK COUNTY
STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS
For The Year Ended June 30, 2008
(Continued)

Non- Major Funds	Total Governmental Funds
\$ 40,832	\$ 3,245,270
	14,499
	169,149
	34,454
177,293	1,766,166
17,362	273,319
	266,615
4,353	70,845
<u>239,840</u>	<u>5,840,317</u>
25,662	1,179,200
305,743	1,305,066
	239,344
16,896	241,275
	342,567
	1,577,954
	278,927
27,998	35,285
6,957	1,068,135
<u>383,256</u>	<u>6,267,753</u>
<u>(143,416)</u>	<u>(427,436)</u>
(125,000)	(793,998)
50,000	50,000
285,998	793,998
	406,095
<u>210,998</u>	<u>456,095</u>
67,582	28,659
181,618	2,505,538
<u>\$ 249,200</u>	<u>\$ 2,534,197</u>

The accompanying notes are an integral part of the financial statements.

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**HANCOCK COUNTY
RECONCILIATION OF THE STATEMENT OF REVENUES,
EXPENDITURES, AND CHANGES IN FUND BALANCES OF
GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS**

For The Year Ended June 30, 2008

HANCOCK COUNTY
RECONCILIATION OF THE STATEMENT OF REVENUES,
EXPENDITURES, AND CHANGES IN FUND BALANCES OF
GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS

For The Year Ended June 30, 2008

Net Change in Fund Balances - Total Governmental Funds	\$ 28,659
Governmental Funds Report Assets Held for Resale as Expenditures. However, These Expenditures Are Not Reported in the Statement of Activities	
Purchase of Assets Held for Resale	197,650
Amounts Reported for Governmental Activities in the Statement of Activities Are Different Because Governmental Funds Report Capital Outlays as Expenditures. However, in the Statement of Activities, the Cost of Those Assets Are Allocated Over Their Estimated Useful Lives and Reported as Depreciation Expense.	
Capital Outlay	644,823
Assets Removed from Construction in Progress	(273,843)
Depreciation Expense	(326,574)
Internal Service Funds Are Used By Management To Charge The Cost Of Expenses To Individual Funds. The Net Revenue (Expenses) Of The Internal Service Funds Are Reported With Governmental Activities.	953
The Issuance or Retirement of Long-term Debt (e.g. Bonds, Leases) Provides Current Financial Resources to Governmental Funds.	
While Lease and Bond Principal Payments Are Expensed in the Governmental Funds as a use of Current Financial Resources.	
This Transaction, However, Has No Effect on Net Assets.	
Bond Proceeds	(50,000)
Financing Obligation Proceeds	(406,095)
Financing Obligations Principal Amount	194,561
Change in Net Assets of Governmental Activities	<u>\$ 10,134</u>

The accompanying notes are an integral part of the financial statements.

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HANCOCK COUNTY
STATEMENT OF FUND NET ASSETS - PROPRIETARY FUNDS - MODIFIED CASH BASIS

June 30, 2008

HANCOCK COUNTY
STATEMENT OF FUND NET ASSETS - PROPRIETARY FUNDS - MODIFIED CASH BASIS

June 30, 2008

	Business-Type Activities	Governmental Activities
	Enterprise Funds	Internal Service Fund
	Airport Board Fund	Insurance Deductible Fund
Assets		
Current Assets:		
Cash and Cash Equivalents	\$ 854,927	\$ 953
Total Current Assets	<u>854,927</u>	<u>953</u>
Noncurrent Assets:		
Capital Assets - Net of Accumulated		
Land	1,627,176	
Land Improvements	5,644,204	
Total Noncurrent Assets	<u>7,271,380</u>	
Total Assets	<u>8,126,307</u>	<u>953</u>
Liabilities		
Current Liabilities:		
Bonds Payable	65,000	
Long Term Liabilities:		
Bonds Payable	795,000	
Total Liabilities	<u>860,000</u>	
Net Assets		
Invested in Capital Assets,		
Net of Related Debt	6,411,380	
Restricted		953
Unrestricted	854,927	
Total Net Assets	<u>\$ 7,266,307</u>	<u>\$ 953</u>

The accompanying notes are an integral part of the financial statements.

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HANCOCK COUNTY
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS -
PROPRIETARY FUNDS - MODIFIED CASH BASIS

For The Year Ended June 30, 2008

HANCOCK COUNTY
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS -
PROPRIETARY FUNDS - MODIFIED CASH BASIS

For The Year Ended June 30, 2008

	<u>Business-Type Activities</u>	<u>Governmental Activities</u>
	<u>Enterprise Funds</u>	<u>Internal Service Fund</u>
	<u>Airport Board Fund</u>	<u>Insurance Deductible Fund</u>
Operating Expenses		
Administration and Claims	\$	\$ 19,047
Total Operating Expenses		19,047
Operating Income (Loss)		(19,047)
Nonoperating Revenues (Expenses)		
Interest Income	222	
Investment Earnings	21,163	
Federal Receipts	4,076,090	
State Receipts	180,133	
Fiscal Court Receipts	117,359	
Other Receipts	411	
Bond Issue Cost	(20,780)	
Interest Expense	(17,523)	
Miscellaneous Expenses	(236)	
Net Nonoperating Revenues (Expenses)	4,356,839	
Other Financing Sources (Uses)		
Transfer From Other Funds		20,000
Total Other Financing Sources (Uses)		20,000
Change In Net Assets	4,356,839	953
Total Net Assets - Beginning (Restated)	2,909,468	
Total Net Assets - Ending	<u>\$ 7,266,307</u>	<u>\$ 953</u>

The accompanying notes are an integral part of the financial statements.

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HANCOCK COUNTY
STATEMENT OF CASH FLOWS - PROPRIETARY FUNDS - MODIFIED CASH BASIS

For The Year Ended June 30, 2008

HANCOCK COUNTY
STATEMENT OF CASH FLOWS - PROPRIETARY FUNDS - MODIFIED CASH BASIS

For The Year Ended June 30, 2008

	Business-Type Activities	Governmental Activities
	Enterprise Funds	Internal Service Fund
	Airport Board Fund	Insurance Deductible Fund
Cash Flows From Operating Activities		
Reimbursement	\$	\$ 20,000
Administration and Claims		(19,047)
Net Cash Provided By Operating Activities		953
Cash Flows From Capital and Related Financing Activities		
Interest Expense	(17,523)	
Federal Receipts	4,076,090	
State Receipts	180,133	
Fiscal Court Receipts	117,359	
Bond Issue (net of expenses)	839,220	
Capital Outlay	(4,372,647)	
Miscellaneous	175	
Net Cash (Used) By Capital and Related Financing Activities	822,807	
Cash Flows From Investing Activities		
Interest Earned	222	
Investment Earnings	21,163	
Net Cash Provided By Investing Activities	21,385	
Net Increase in Cash and Cash Equivalents	844,192	953
Cash and Cash Equivalents - July 1, 2007	10,735	
Cash and Cash Equivalents - June 30, 2008	<u>\$ 854,927</u>	<u>\$ 953</u>

The accompanying notes are an integral part of the financial statements.

**INDEX FOR NOTES
TO THE FINANCIAL STATEMENTS**

NOTE 1.	SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES	37
NOTE 2.	DEPOSITS.....	42
NOTE 3.	RECEIVABLES	29
NOTE 4.	CAPITAL ASSETS	44
NOTE 5.	SHORT-TERM DEBT	31
NOTE 6.	LONG-TERM DEBT.....	45
NOTE 7.	EMPLOYEE RETIREMENT SYSTEM	35
NOTE 8.	INSURANCE	35
NOTE 9.	LANDFILL CLOSURE AND POSTCLOSURE COSTS.....	35
NOTE 10.	PRIOR PERIOD ADJUSTMENTS.....	35
NOTE 11.	FUND BALANCE - DEFICIT	36

HANCOCK COUNTY
NOTES TO FINANCIAL STATEMENTS

June 30, 2008

Note 1. Summary of Significant Accounting Policies

A. Basis of Presentation

The county presents its government wide and fund financial statements in accordance with a modified cash basis of accounting, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. Under this basis of accounting, assets, liabilities, and related revenues and expenditures are recorded when they result from cash transactions, with a few exceptions. This modified cash basis recognizes revenues when received and expenditures when paid. Notes receivable are recognized on the Statement of Net Assets, but notes receivables are not included and recognized on Balance Sheet - Governmental Funds. Property tax receivables, accounts payable, compensated absences, and donated assets, among other items, are not reflected in the financial statements.

Encumbrances lapse at year-end and are not reflected on the Statement of Net Assets and Statement of Activities; however encumbrances are reflected on the Balance Sheet - Governmental Funds as part of the fund balance (Reserved for Encumbrances).

The State Local Finance Officer does not require the county to report capital assets and infrastructure; however the values of these assets are included in the Statement of Net Assets and their corresponding depreciation expense is included on the Statement of Activities.

B. Reporting Entity

The financial statements of Hancock County include the funds, agencies, boards, and entities for which the fiscal court is financially accountable. Financial accountability, as defined by Section 2100 of the Governmental Accounting Standards Board (GASB) Codification of Governmental Accounting and Financial Reporting Standards, as amended by GASB 14 and GASB 39, was determined on the basis of the government's ability to significantly influence operations, select the governing authority, participate in fiscal management and the scope of public service. Consequently, the reporting entity includes organizations that are legally separate from the primary government. Legally separate organizations are reported as component units if either the county is financially accountable or the organization's exclusion would cause the county's financial statements to be misleading or incomplete. Component units may be blended or discretely presented. Blended component units either provide their services exclusively or almost entirely to the primary government, or their governing bodies are substantively the same as the primary government. All other component units are discretely presented.

Blended Component Units

The following legally separate organizations provide their services exclusively to the primary government, and the fiscal court is able to impose its will on this organization. These organizations' balances and transactions are reported as though they are part of the county's primary government using the blending method.

Hancock County Airport Board

The Hancock County Airport Board is not legally separate from the Hancock County Fiscal Court. The Fiscal Court has the ability to impose its will on the governing board. Financial information for the Airport Board is blended within Hancock County's financial statements. All activities of the Airport Board are accounted for within a major enterprise fund.

HANCOCK COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2008
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

C. Hancock County Elected Officials

Kentucky law provides for election of officials listed on the next page from the geographic area constituting Hancock County. Pursuant to state statute, these officials perform various services for the Commonwealth of Kentucky, its judicial courts, the fiscal court, various cities and special districts within the county, and the board of education. In exercising these responsibilities, however, they are required to comply with state laws. Audits of their financial statements are issued separately and individually and can be obtained from their respective administrative offices. These financial statements are not required to be included in the financial statements of Hancock County, Kentucky.

- Circuit Court Clerk
- County Attorney
- Property Valuation Administrator
- County Clerk
- County Sheriff

D. Government-wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the non-fiduciary activities of the primary government and its non-fiduciary component units. For the most part, the effect of interfund activities has been removed from these statements. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on sales, fees, and charges for support. Business-type revenues come mostly from fees charged to external parties for goods or services.

The statement of net assets presents the reporting entity's non-fiduciary assets and liabilities, the difference between the two being reported as net assets. Net assets are reported in three categories: 1) invested in capital assets, net of related debt - consisting of capital assets, net of accumulated depreciation and reduced by outstanding balances for debt related to the acquisition, construction, or improvement of those assets; 2) restricted net assets - resulting from constraints placed on net assets by creditors, grantors, contributors, and other external parties, including those constraints imposed by law through constitutional provisions or enabling legislation; and 3) unrestricted net assets - those assets that do not meet the definition of restricted net assets or invested in capital assets.

The statement of activities demonstrates the degree to which the direct expenses of a given function are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function. Program revenues include: 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function; 2) operating grants and contributions; and 3) capital grants and contributions that are restricted to meeting the operational or capital requirements of a particular function. Internally dedicated resources such as taxes and unrestricted state funds are reported as general revenues.

Funds are characterized as either major or non-major. Major funds are those whose assets, liabilities, revenues, or expenditures/expenses are at least ten percent of the corresponding total (assets, liabilities, etc.) for all funds or type (governmental or proprietary) and whose total assets, liabilities, revenues, or expenditures/expenses are at least five percent of the corresponding total for all governmental and enterprise funds combined. The fiscal court may also designate any fund as major.

HANCOCK COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2008
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

D. Government-wide and Fund Financial Statements (Continued)

Separate financial statements are provided for governmental funds and proprietary funds. Major individual governmental funds and major enterprise funds are reported as separate columns in the financial statements.

Governmental Funds

The primary government reports the following major governmental funds:

General Fund - This is the primary operating fund of the Fiscal Court. It accounts for all financial resources of the general government, except where the Department for Local Government requires a separate fund or where management requires that a separate fund be used for some function.

Road Fund - This fund is for road and bridge construction and repair. The primary source of revenue for this fund is state payments for truck licenses distribution, municipal road aid, and transportation grants. The Department for Local Government requires the Fiscal Court to maintain these receipts and expenditures separately from the General Fund.

Local Government Economic Assistance (LGEA) Fund - The purpose of this fund is to account for local government development funds received from the state government. The funds may be used for roads, protection of persons and property, social services and general health and sanitation expenditures.

The primary government also has the following non-major funds: Jail Fund, E911 Fund, Federal Grant Fund, New Courthouse Fund and Debt Service Fund.

Special Revenue Funds:

The Road Fund, Jail Fund, LGEA Fund, E911 Fund, and Federal Grant Fund are presented as special revenue funds. Special revenue funds are to account for the proceeds of specific revenue sources and expenditures that are legally restricted for specific purposes.

Debt Service Funds:

The County has one debt service fund included as a non-major fund. Debt service funds are used to account for the accumulation of resources for the payment of general long-term debt principal and interest.

Capital Projects Fund:

New Courthouse Fund - The County created a fund to help account for the funds received from a bond issue and to account for expenses related to the construction of the new Judicial Center.

Internal Service Fund:

The primary government reports the following internal service fund:

Insurance Deductible Fund - This fund accounts for services provided to the county's employees as a benefit. The Insurance Deductible Fund of the fiscal court is reported as an internal service fund.

HANCOCK COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2008
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

Proprietary Funds

The proprietary funds are reported using the economic resources measurement focus and the modified cash basis of accounting. Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with proprietary funds' principal ongoing operations. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses. The principal operating revenues of the county's enterprise funds are charges to customers for sales and services at the Airport Board Fund. Operating expenses for the enterprise funds include the cost of sales and services, administrative expenses, and depreciation of capital assets.

The primary government reports the following major proprietary fund:

Airport Board Fund - The primary purpose of this fund is to account for the activities of the airport. The primary sources of revenue for this fund are from charges to customers and federal aviation grants.

E. Deposits and Investments

The government's cash and cash equivalents are considered to be cash on hand, demand deposits, certificates of deposit, and short-term investments with original maturities of three months or less from the date of acquisition.

KRS 66.480 authorizes the county to invest in the following, including but not limited to, obligations of the United States and of its agencies and instrumentalities, obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States, obligations of any corporation of the United States government, bonds or certificates of indebtedness of this state, and certificates of deposit issued by or other interest-bearing accounts of any bank or savings and loan institution which are insured by the Federal Deposit Insurance Corporation (FDIC) or which are collateralized, to the extent uninsured, by any obligation permitted by KRS 41.240(4).

F. Capital Assets

Capital assets, which include land, land improvements, buildings, furniture and office equipment, building improvements, machinery, equipment, and infrastructure assets (roads and bridges) that have a useful life of more than one reporting period based on the government's capitalization policy, are reported in the applicable governmental or business-type activities of the government-wide financial statements. Such assets are recorded at historical cost or estimated historical cost when purchased or constructed.

Cost of normal maintenance and repairs that do not add to the value of the asset or materially extend the asset's life are not capitalized. Land and Construction In Progress are not depreciated. Interest incurred during construction are not capitalized for Governmental Funds but are capitalized to Proprietary Funds. Capital assets and infrastructure are depreciated using the straight-line method of depreciation over the estimated useful life of the asset.

HANCOCK COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2008
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

F. Capital Assets (Continued)

	Capitalization Threshold	Useful Life (Years)
Land Improvements	\$ 25,000	10-25
Buildings	\$ 10,000	10-40
Equipment	\$ 5,000	5-10
Vehicles	\$ 7,500	5-10
Infrastructure - Bridges	\$ 5,000	10-50
Infrastructure - Roads	\$ 10,000	10-50

G. Long-term Obligations

In the government-wide financial statements and proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable financial statements. The principal amount of bonds, notes and financing obligations are reported.

In the fund financial statements, governmental fund types recognize bond interest, as well as bond issuance costs when received or when paid, during the current period. The principal amount of the debt and interest are reported as expenditures. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as expenditures. Debt proceeds are reported as other financing sources.

H. Fund Equity

In the fund financial statements, the difference between the assets and liabilities of governmental funds is reported as fund balance. Fund balance is divided into reserved and unreserved components, with unreserved considered available for new spending. Unreserved fund balances may be divided into designated and undesignated portions. Designations represent fiscal court's intended use of the resources and should reflect actual plans approved by the fiscal court.

Governmental funds report reservations of fund balance for amounts that are legally restricted by outside parties for use for a specific purpose, long-term receivables, and encumbrances.

"Reserved for Encumbrances" are purchase orders that will be fulfilled in a subsequent fiscal period. Although the purchase order or contract creates a legal commitment, the fiscal court incurs no liability until performance has occurred on the part of the party with whom the fiscal court has entered into the arrangement. When a government intends to honor outstanding commitments in subsequent periods, such amounts are encumbered. Encumbrances lapse at year-end and are not reflected on the Statement of Net Assets and Statement of Activities; however, encumbrances are reflected on the Balance Sheet - Governmental Funds as part of the fund balance.

I. Budgetary Information

Annual budgets are adopted on a cash basis of accounting and according to the laws of Kentucky as required by the State Local Finance Officer.

The County Judge/Executive is required to submit estimated receipts and proposed expenditures to the fiscal court by May 1 of each year. The budget is prepared by fund, function, and activity and is required to be adopted by the fiscal court by July 1.

HANCOCK COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2008
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

I. Budgetary Information (Continued)

The fiscal court may change the original budget by transferring appropriations at the activity level; however, the fiscal court may not increase the total budget without approval by the State Local Finance Officer. Expenditures may not exceed budgeted appropriations at the activity level.

The Hancock County Airport Board (blended component unit) funds are not budgeted. The Department for Local Government does not require the Fiscal Court to report or budget this fund.

J. Joint Ventures

A legal entity or other organization that results from a contractual agreement and that is owned, operated, or governed by two or more participants as a separate activity subject to joint control, in which the participants retain (a) an ongoing financial interest or (b) an ongoing financial responsibility is a joint venture. Based on these criteria, the Hancock County Urban Planning Commission is considered a joint venture of the Hancock County Fiscal Court.

Note 2. Deposits

The primary government maintained deposits of public funds with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC) in accordance with KRS 66.480(1)(d). According to KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with FDIC insurance, equals or exceeds the amount of public funds on deposit at all times.

In order to be valid against the FDIC in the event of failure or insolvency of the depository institution, this pledge or provision of collateral should be evidenced by an agreement between the county and the depository institution, signed by both parties, that is (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution. These requirements were met.

Custodial Credit Risk-Deposits

Custodial credit risk is the risk that in the event of a depository institution failure, the fiscal court's deposits may not be returned. The fiscal court does not have a deposit policy for custodial credit risk but rather follows the requirements of KRS 41.240 (4). As of June 30, 2008, the fiscal court's deposits were exposed to custodial credit risk as follows:

- Uncollateralized and Uninsured \$793,041

HANCOCK COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2008
(Continued)

Note 3. Receivables

- A. Hancock County Fiscal Court loaned \$364,000 to World Source Industries, Inc., on June 14, 1990 for the purpose of land acquisition. Arvin Roll Coater, Inc. had assumed this loan and merged with Arvin Meritor in December 2004. Terms of the agreement stipulate a one-time payment on June 14, 2005; however, as of June 30, 2008 the payment hasn't been made and is in dispute. As of June 30, 2008, the principal balance remaining due was \$364,000.
- B. Hancock County Fiscal Court loaned \$36,000 to the Dukes Volunteer Fire Department on May 5, 1999 to fund the fire department addition. Terms of the agreement stipulate a ten-year repayment schedule without interest. Dukes Volunteer Fire Department is in substantial compliance with the terms of the agreement. As of June 30, 2008, the balance due was \$3,600.

HANCOCK COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2008
(Continued)

Note 4. Capital Assets

Capital asset activity for the year ended June 30, 2008 was as follows:

	Reporting Entity		
	Beginning Balance	Increases	Ending Balance
Primary Government:			
<u>Governmental Activities:</u>			
Capital Assets Not Being Depreciated:			
Land	\$ 862,102	\$	\$ 862,102
Construction In Progress	273,843		(273,843)
Total Capital Assets Not Being Depreciated	1,135,945		862,102
Capital Assets, Being Depreciated:			
Buildings	2,768,147	291,968	3,060,115
Equipment	1,347,770	160,695	1,508,465
Vehicles	1,777,921	192,160	1,970,081
Infrastructure	809,526		809,526
Total Capital Assets Being Depreciated	6,703,364	644,823	7,348,187
Less Accumulated Depreciation For:			
Buildings	(1,153,877)	(69,686)	(1,223,563)
Equipment	(833,063)	(124,030)	(957,093)
Vehicles	(1,449,152)	(89,090)	(1,538,242)
Infrastructure	(119,944)	(43,768)	(163,712)
Total Accumulated Depreciation	(3,556,036)	(326,574)	(3,882,610)
Total Capital Assets, Being Depreciated, Net	3,147,328	318,249	3,465,577
Governmental Activities Capital Assets, Net	<u>\$ 4,283,273</u>	<u>\$ 318,249</u>	<u>\$ (273,843)</u>
			<u>\$ 4,327,679</u>

	Reporting Entity		
	Beginning Balance	Increases	Ending Balance
<u>Business-Type Activities:</u>			
Capital Assets Not Being Depreciated:			
Land	\$ 1,627,176	\$	\$ 1,627,176
Construction In Progress	1,271,557	4,372,647	5,644,204
Total Capital Assets Not Being Depreciated	2,898,733	4,372,647	7,271,380
Business-Type Activities Capital Assets, Net	<u>\$ 2,898,733</u>	<u>\$ 4,372,647</u>	<u>\$ 0</u>
			<u>\$ 7,271,380</u>

HANCOCK COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2008
(Continued)

Note 4. Capital Assets (Continued)

Depreciation expense was charged to functions of the primary government as follows:

Governmental Activities:

General Government	\$ 77,849
Protection to Persons and Property	61,994
Recreation and Culture	3,060
Roads, Including Depreciation of General Infrastructure Assets	169,854
Social Services	<u>13,817</u>
Total Depreciation Expense - Governmental Activities	<u>\$ 326,574</u>

Note 5. Short-term Debt

A. Mack Dump Trucks

Hancock County Fiscal Court entered into a short-term lease with the Kentucky Association of Counties Leasing Trust to finance the purchase of two Mack dump trucks. The lease is for \$197,650 at an interest rate of 4.52% per annum. Interest payments are due by the 20th of each month. The entire principal amount is due on September 20, 2008 making this a short-term financing obligation. The total principal balance was \$197,650 as of June 30, 2008.

B. Changes In Short-term Liabilities

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
Primary Government:					
<u>Governmental Activities:</u>					
Financing Obligations	<u>\$</u>	<u>\$ 197,650</u>	<u>\$</u>	<u>\$ 197,650</u>	<u>\$ 197,650</u>
Governmental Activities					
Long-term Liabilities	<u>\$ 0</u>	<u>\$ 197,650</u>	<u>\$ 0</u>	<u>\$ 197,650</u>	<u>\$ 197,650</u>

Note 6. Long-term Debt

A. Note Payable, Bittel Property

Hancock County borrowed \$106,800 from Harold and Wanda Bittel for the purpose of land acquisition. Terms of the agreement stipulate a payment of four equal installments annually with accrued interest at the certificate of deposit rate. The entire amount of the funds from the loan was deposited into a certificate of deposit to meet the debt service requirements. The balance was paid off prior to June 30, 2008.

HANCOCK COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2008
(Continued)

Note 6. Long-term Debt (Continued)

B. Airport Board Note

Hancock County Fiscal Court borrowed \$463,700 from the Kentucky Association of Counties Leasing Trust for the purpose of land acquisition for economic development. Terms of the agreement stipulate a three-year repayment schedule at interest of 5.15%. The Fiscal Court is in substantial compliance with the terms of the agreement. As of June 30, 2008, the principal balance was \$40,854. Future principal and interest requirements are:

Fiscal Year Ended June 30	Governmental Activities	
	Principal	Interest
2009	\$ 40,854	\$ 560
Totals	<u>\$ 40,854</u>	<u>\$ 560</u>

C. Ambulance

Hancock County Fiscal Court borrowed \$63,334 from Independence Bank for the purchase of an ambulance. Terms of the agreement stipulate a five-year repayment schedule at interest of 5.2%. The Fiscal Court is in substantial compliance with the terms of the agreement. As of June 30, 2008, the principal balance was \$26,154. Future principal and interest requirements are:

Fiscal Year Ended June 30	Governmental Activities	
	Principal	Interest
2009	\$ 12,757	\$ 1,360
2010	<u>13,397</u>	<u>697</u>
Totals	<u>\$ 26,154</u>	<u>\$ 2,057</u>

HANCOCK COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2008
(Continued)

Note 6. Long-term Debt (Continued)

D. Excavator

Hancock County Fiscal Court borrowed \$108,445 from Green River Area Development District for the purchase of an excavator. Terms of the agreement stipulate a five year repayment schedule at interest of 4%. The Fiscal Court is in substantial compliance with the terms of the agreement. As of June 30, 2008, the principal balance was \$108,445. Future principal and interest requirements are:

Fiscal Year Ended June 30	Governmental Activities	
	Principal	Interest
2009	\$ 20,006	\$ 4,410
2010	20,814	3,331
2011	21,655	2,491
2012	22,530	1,616
2013	23,440	706
Totals	<u>\$ 108,445</u>	<u>\$ 12,554</u>

E. Airport Construction Note

Hancock County Fiscal Court borrowed \$100,000 from Green River Area Development District for construction at the airport. Terms of the agreement stipulate a four year repayment schedule at interest of 4.25%. The Fiscal Court is in substantial compliance of the terms of the agreement. As of June 30, 2008, the principal balance was \$100,000. Future principal and interest requirements are:

Fiscal Year Ended June 30	Governmental Activities	
	Principal	Interest
2009	\$ 24,003	\$ 3,708
2010	24,482	3,230
2011	25,522	2,189
2012	25,993	1,105
Totals	<u>\$ 100,000</u>	<u>\$ 10,232</u>

F. Judicial Center Construction Bond, Series 2007

Hancock County Fiscal Court issued a Bond Anticipation Note, Series 2007 for \$2,000,000 thru Hancock Bank and Trust Company on December 10, 2007 to finance a portion of the costs of acquisition, development, construction and installation of a new judicial center building. As of June 30, 2008, Hancock County Fiscal Court has only drawn down \$50,000. The note bears interest from the date of each advance of proceeds and is payable on December 1, 2008 and on each June 1 and December 1 until it matures. The rate per annum is 3.69%. The bond will mature December 1, 2009.

HANCOCK COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2008
(Continued)

Note 6. Long-term Debt (Continued)

G. Airport Board Bond Issue (Business-Type Activities)

Hancock County Airport Board issued bonds totaling \$860,000 thru the Kentucky Public Agency Development Trust & Lease Acquisition Program Series 2007 A1 on September 18, 2007 for the purpose of building a terminal for the airport. The coupon rate is 4.5% and it was issued at par value. These bonds will mature September 1, 2017. The future debt service requirements are:

Fiscal Year Ended June 30	Business-Type Activities	
	Principal	Interest
2009	\$ 65,000	\$ 37,238
2010	65,000	34,313
2011	70,000	31,275
2012	70,000	28,125
2013	75,000	24,863
2014-2018	515,000	67,388
Totals	<u>\$ 860,000</u>	<u>\$ 223,202</u>

H. Changes In Long-term Liabilities

Long-term liability activity for the year ended June 30, 2008, was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Primary Government:					
<u>Governmental Activities:</u>					
Financing Obligations	\$ 261,569	\$ 208,445	\$ 194,561	\$ 275,453	\$ 97,620
General Obligation Bonds		50,000		50,000	
Governmental Activities					
Long-term Liabilities	<u>\$ 261,569</u>	<u>\$ 258,445</u>	<u>\$ 194,561</u>	<u>\$ 325,453</u>	<u>\$ 97,620</u>
<u>Business-Type Activities:</u>					
Financing Obligations (Note 6G)	\$	\$ 860,000	\$	\$ 860,000	\$ 65,000
Business-Type Activities					
Long-term Liabilities	<u>\$ 0</u>	<u>\$ 860,000</u>	<u>\$ 0</u>	<u>\$ 860,000</u>	<u>\$ 65,000</u>

HANCOCK COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2008
(Continued)

Note 7. Employee Retirement System

The fiscal court has elected to participate in the County Employees Retirement System (CERS), pursuant to KRS 78.530 administered by the Board of Trustees of the Kentucky Retirement Systems. This is a cost-sharing, multiple employer defined benefit pension plan, which covers all eligible full-time employees and provides for retirement, disability and death benefits to plan members. Benefit contributions and provisions are established by statute. Nonhazardous covered employees are required to contribute 5 percent of their salary to the plan. The county's contribution rate for nonhazardous employees was 16.17 percent. Employer contributions for nonhazardous covered employees for fiscal years ended June 30, 2006, 2007, and 2008 were \$254,043, \$285,913, and \$266,633, respectively.

Benefits fully vest on reaching five years of service for nonhazardous employees. Aspects of benefits for nonhazardous employees include retirement after 27 years of service or age 65.

Historical trend information showing the CERS' progress in accumulating sufficient assets to pay benefits when due is presented in the Kentucky Retirement Systems' annual financial report. This report may be obtained by writing the Kentucky Retirement Systems, 1260 Louisville Road, Frankfort, KY 40601-6124, or by telephone at (502) 564-4646.

Note 8. Insurance

For the fiscal year ended June 30, 2008, Hancock County was a member of the Kentucky Association of Counties' All Lines Fund (KALF). KALF is a self-insurance fund and was organized to obtain lower cost coverage for general liability, property damage, public officials' errors and omissions, public liability, and other damages. The basic nature of a self-insurance program is that of a collectively shared risk by its members. If losses incurred for covered claims exceed the resources contributed by the members, the members are responsible for payment of the excess losses.

Note 9. Landfill Closure and Postclosure Costs

The Hancock County Landfill was closed on June 20, 1995. The Fiscal Court must comply with established state and federal landfill closure and postclosure procedures and must perform maintenance and monitoring procedures at the site for thirty years after closure. Estimated postclosure care costs total \$205,309 as of June 30, 2008, or \$12,077 per year. Actual costs may be higher due to inflation, changes in technology, or changes in regulations. It is anticipated that postclosure costs will be paid out of the General Fund to the extent that funds are available with any excess costs being funded using long-term borrowings.

Note 10. Prior Period Adjustments

Beginning net assets of governmental activities has been restated for prior year checks voided in the prior year. The effect of this change is a net increase of \$132 in governmental activities and the fund balance of the General Fund has been increased by \$132 for the voided checks.

Beginning net assets of governmental activities has been restated for prior year checks voided in the prior year. The effect of this change is a net increase of \$172 in governmental activities and the fund balance of the Jail Fund has been increased by \$172 for the voided checks.

HANCOCK COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2008
(Continued)

Note 10. Prior Period Adjustments (Continued)

Beginning cash and cash equivalents and capital assets of business-type activities has been restated to add these balances. The effect of these changes is an increase of \$10,735 and \$2,898,733, respectfully. The net effect of these changes to the total net assets of the business-type activities is an increase of \$2,909,468.

Note 11. Fund Balance – Deficit

As of June 30, 2008, the Road Fund had a deficit in its unreserved special revenue fund balance in the amount of \$63,527. This deficit was due to the existence of encumbrances in the amount of \$215,489. The deficit was eliminated with the deposit of funds after June 30, 2008.

As of June 30, 2008, the Jail Fund had a deficit in its unreserved special revenue fund balance in the amount of \$9,228. This deficit was due to the existence of encumbrances in the amount of \$10,570. The deficit was eliminated with the deposit of funds after June 30, 2008.

HANCOCK COUNTY
BUDGETARY COMPARISON SCHEDULES
Required Supplementary Information - Modified Cash Basis
For The Year Ended June 30, 2008

HANCOCK COUNTY
BUDGETARY COMPARISON SCHEDULES
Required Supplementary Information - Modified Cash Basis

For The Year Ended June 30, 2008

	GENERAL FUND			
	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
REVENUES				
Taxes	\$ 2,658,800	\$ 2,713,800	\$ 3,204,438	\$ 490,638
In Lieu Tax Payments	20,850	20,850	14,499	(6,351)
Excess Fees	68,250	163,250	169,149	5,899
Licenses and Permits	11,300	21,300	34,454	13,154
Intergovernmental Revenue	970,390	992,390	397,521	(594,869)
Charges for Services	207,760	207,760	255,957	48,197
Miscellaneous	105,650	248,325	227,028	(21,297)
Interest	13,000	13,000	48,680	35,680
Total Revenues	<u>4,056,000</u>	<u>4,380,675</u>	<u>4,351,726</u>	<u>(28,949)</u>
EXPENDITURES				
General Government	1,145,360	1,228,325	1,153,538	74,787
Protection to Persons and Property	961,478	1,042,921	998,274	44,647
General Health and Sanitation	855,442	881,587	236,044	645,543
Social Services	198,457	224,881	210,279	14,602
Recreation and Culture	349,722	360,764	338,848	21,916
Airports	2,000	278,927	278,927	
Administration	1,509,639	1,286,810	917,676	369,134
Total Expenditures	<u>5,022,098</u>	<u>5,304,215</u>	<u>4,133,586</u>	<u>1,170,629</u>
Excess (Deficiency) of Revenues Over Expenditures Before Other Financing Sources (Uses)	<u>(966,098)</u>	<u>(923,540)</u>	<u>218,140</u>	<u>1,141,680</u>
OTHER FINANCING SOURCES (USES)				
Transfers Out	(547,535)	(547,535)	(543,998)	3,537
Governmental Leasing Act Receipts			100,000	(100,000)
Total Other Financing Sources (Uses)	<u>(547,535)</u>	<u>(547,535)</u>	<u>(443,998)</u>	<u>103,537</u>
Net Changes in Fund Balance	(1,513,633)	(1,471,075)	(225,858)	1,245,217
Fund Balance - Beginning (Restated)	<u>1,513,633</u>	<u>1,513,633</u>	<u>1,900,279</u>	<u>386,646</u>
Fund Balance - Ending	<u>\$ 0</u>	<u>\$ 42,558</u>	<u>\$ 1,674,421</u>	<u>\$ 1,631,863</u>

HANCOCK COUNTY
BUDGETARY COMPARISON SCHEDULES
Required Supplementary Information - Modified Cash Basis
For The Year Ended June 30, 2008
(Continued)

	ROAD FUND			
	Budgeted Amounts		Actual	Variance with
	Original	Final	Amounts,	Final Budget
			(Budgetary	Positive
			Basis)	(Negative)
REVENUES				
Intergovernmental Revenue	\$ 722,719	\$ 1,162,719	\$ 1,019,451	\$ (143,268)
Miscellaneous	100,200	208,645	39,587	(169,058)
Interest	5,775	5,775	6,052	277
Total Revenues	828,694	1,377,139	1,065,090	(312,049)
EXPENDITURES				
Roads	1,022,317	1,583,786	1,380,304	203,482
Debt Service	20,000	20,000	7,287	12,713
Administration	243,802	230,778	143,502	87,276
Total Expenditures	1,286,119	1,834,564	1,531,093	303,471
Excess (Deficiency) of Revenues Over Expenditures Before Other Financing Sources (Uses)	(457,425)	(457,425)	(466,003)	(8,578)
OTHER FINANCING SOURCES (USES)				
Transfers Out			(125,000)	(125,000)
Transfers In	331,775	331,775	508,000	176,225
Governmental Leasing Act Receipts			108,445	108,445
Total Other Financing Sources (Uses)	331,775	331,775	491,445	159,670
Net Changes in Fund Balance	(125,650)	(125,650)	25,442	151,092
Fund Balance - Beginning	125,650	125,650	126,520	870
Fund Balance - Ending	\$ 0	\$ 0	\$ 151,962	\$ 151,962

HANCOCK COUNTY
BUDGETARY COMPARISON SCHEDULES
Required Supplementary Information - Modified Cash Basis
For The Year Ended June 30, 2008
(Continued)

LOCAL GOVERNMENT ECONOMIC ASSISTANCE FUND

	<u>Budgeted Amounts</u>		<u>Actual</u> <u>Amounts,</u> <u>(Budgetary</u> <u>Basis)</u>	<u>Variance with</u> <u>Final Budget</u> <u>Positive</u> <u>(Negative)</u>
	<u>Original</u>	<u>Final</u>		
REVENUES				
Intergovernmental Revenue	\$ 40,100	\$ 40,100	\$ 171,901	\$ 131,801
Miscellaneous	100	100		(100)
Interest	2,405	2,405	11,760	9,355
Total Revenues	<u>42,605</u>	<u>42,605</u>	<u>183,661</u>	<u>141,056</u>
EXPENDITURES				
Protection to Persons and Property	1,100	1,100	1,049	51
General Health and Sanitation	3,300	3,300	3,300	
Social Services	24,000	24,000	14,100	9,900
Recreation and Culture	5,500	5,500	3,719	1,781
Roads	227,543	227,543		227,543
Total Expenditures	<u>261,443</u>	<u>261,443</u>	<u>22,168</u>	<u>239,275</u>
Excess (Deficiency) of Revenues Over Expenditures Before Other Financing Sources (Uses)	<u>(218,838)</u>	<u>(218,838)</u>	<u>161,493</u>	<u>380,331</u>
Net Changes in Fund Balance	(218,838)	(218,838)	161,493	380,331
Fund Balance - Beginning	<u>218,838</u>	<u>218,838</u>	<u>297,121</u>	<u>78,283</u>
Fund Balance - Ending	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 458,614</u>	<u>\$ 458,614</u>

HANCOCK COUNTY
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION

June 30, 2008

1. Budgetary Information

Annual budgets are adopted on a cash basis of accounting and according to the laws of Kentucky as required by the State Local Finance Officer.

The County Judge/Executive is required to submit estimated receipts and proposed expenditures to the fiscal court by May 1 of each year. The budget is prepared by fund, function, and activity and is required to be adopted by the fiscal court by July 1.

The fiscal court may change the original budget by transferring appropriations at the activity level; however, the fiscal court may not increase the total budget without approval by the State Local Finance Officer. Expenditures may not exceed budgeted appropriations at the activity level.

2. Reconciliation – Road Fund

Total Expenditures - Budgetary Basis	\$ 1,531,093
Plus Financing Obligations Expenditures:	
Roads	<u>197,650</u>

Total Expenditures - Modified Cash Basis	<u><u>\$ 1,728,743</u></u>
--	----------------------------

Total Other Financing Sources (Uses)	\$ 491,445
- Budgetary Basis	
Plus Financing Obligations Proceeds	<u>197,650</u>

Total Other Financing Sources (Uses)	
- Modified Cash Basis	<u><u>\$ 689,095</u></u>

**HANCOCK COUNTY
COMBINING BALANCE SHEET -
NON-MAJOR GOVERNMENTAL FUNDS - MODIFIED CASH BASIS
Other Supplementary Information**

June 30, 2008

HANCOCK COUNTY
COMBINING BALANCE SHEET -
NON-MAJOR GOVERNMENTAL FUNDS - MODIFIED CASH BASIS
Other Supplementary Information

June 30, 2008

	Jail Fund	E911 Fund	New Courthouse Fund	Debt Service Fund	Total Non-Major Governmental Funds
ASSETS					
Cash and Cash Equivalents	\$ 1,342	\$ 223,106	\$ 24,338	\$ 414	\$ 249,200
Total Assets	<u>1,342</u>	<u>223,106</u>	<u>24,338</u>	<u>414</u>	<u>249,200</u>
FUND BALANCES					
Reserved for:					
Encumbrances	10,570	5,694			16,264
Debt Service					
Insurance Deductible					
Capital Projects			24,338		24,338
Unreserved:					
Special Revenue Fund	(9,228)	217,412		414	208,598
Total Fund Balances	<u>\$ 1,342</u>	<u>\$ 223,106</u>	<u>\$ 24,338</u>	<u>\$ 414</u>	<u>\$ 249,200</u>

The accompanying notes are an integral part of the financial statements.

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HANCOCK COUNTY
COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES - NON-MAJOR GOVERNMENTAL FUNDS - MODIFIED CASH BASIS
Other Supplementary Information

For The Year Ended June 30, 2008

HANCOCK COUNTY
COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES - NON-MAJOR GOVERNMENTAL FUNDS - MODIFIED CASH BASIS
Other Supplementary Information

For The Year Ended June 30, 2008

	<u>Jail Fund</u>	<u>E911 Fund</u>	<u>Federal Grant Fund</u>	<u>New- Courthouse Fund</u>
REVENUES				
Intergovernmental	\$ 68,376	\$ 92,021	\$ 16,896	\$
Taxes		40,832		
Charges for Services	17,362			
Interest	235	4,118		
Total Revenues	<u>85,973</u>	<u>136,971</u>	<u>16,896</u>	<u></u>
EXPENDITURES				
General Government				25,662
Protection to Persons and Property	219,479	86,264		
Social Services			16,896	
Debt Service				
Administration	6,957			
Total Expenditures	<u>226,436</u>	<u>86,264</u>	<u>16,896</u>	<u>25,662</u>
Excess (Deficiency) of Revenues Over Expenditures Before Other Financing Sources (Uses)	<u>(140,463)</u>	<u>50,707</u>	<u></u>	<u>(25,662)</u>
Other Financing Sources (Uses)				
Transfer To Other Funds	(125,000)			
Bond Proceeds				50,000
Transfer From Other Funds	258,000			
Total Other Financing Sources (Uses)	<u>133,000</u>	<u></u>	<u></u>	<u>50,000</u>
Net Change in Fund Balance	(7,463)	50,707		24,338
Fund Balances - Beginning (Restated)	8,805	172,399		
Fund Balances - Ending	<u>\$ 1,342</u>	<u>\$ 223,106</u>	<u>\$ 0</u>	<u>\$ 24,338</u>

The accompanying notes are an integral part of the financial statements.

HANCOCK COUNTY
COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES - NON-MAJOR GOVERNMENTAL FUNDS - MODIFIED CASH BASIS
Other Supplementary Information
For The Year Ended June 30, 2008
(Continued)

Debt Service Fund	Total Non-Major Governmental Funds
\$	\$ 177,293
	40,832
	17,362
	4,353
	<u>239,840</u>
	25,662
	305,743
	16,896
27,998	27,998
	6,957
<u>27,998</u>	<u>383,256</u>
<u>(27,998)</u>	<u>(143,416)</u>
	(125,000)
	50,000
27,998	285,998
<u>27,998</u>	<u>210,998</u>
	67,582
414	181,618
<u>\$ 414</u>	<u>\$ 249,200</u>

The accompanying notes are an integral part of the financial statements.

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HANCOCK COUNTY
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

Other Supplementary Information

HANCOCK COUNTY
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
Other Supplementary Information

Fiscal Year Ended June 30, 2008

Federal Grantor		
Program Title	Pass-Through	
<u>Grant Name (CFDA #)</u>	<u>Grantor's Number</u>	<u>Expenditures</u>
 <u>U.S. Department of Health and Human Services</u>		
Direct Program:		
Drug Free Communities Support Program		
(CFDA # 93.276)	6H79SP13660-01-1	\$ 96,968
 <u>U.S. Department of Housing and Urban Development</u>		
Passed Through Department for Local Government:		
Community Development Block Grant/Technical Assistance Program		
(CFDA # 14.227)	M05279202	16,896
 <u>U.S. Department of Transportation</u>		
Direct Program:		
Airport Improvement Program -		
Hancock County Airport		
(CFDA # 20.106)	3-21-0023-06 *	<u>4,026,324</u>
Total Expenditures of Federal Awards		<u>\$ 4,140,188</u>

*Tested as a Major Program **

HANCOCK COUNTY
NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
Fiscal Year Ended June 30, 2008

Note 1 - Basis of Presentation

The accompanying Schedule of Expenditures of Federal Awards includes the federal grant activity of Hancock County, Kentucky and is presented on a modified cash basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations.

**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND
ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS
PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**

TICHENOR & ASSOCIATES, LLP
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The Honorable Jack B. McCaslin, Hancock County Judge/Executive
Members of the Hancock County Fiscal Court

Report On Internal Control Over Financial Reporting And
On Compliance And Other Matters Based On An Audit Of Financial Statements
Performed In Accordance With Government Auditing Standards

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Hancock County, Kentucky, as of and for the year ended June 30, 2008, which collectively comprise the County's basic financial statements, as listed in the table of contents and have issued our report thereon dated June 26, 2009. Hancock County presents its financial statements on the modified cash basis of accounting which is a comprehensive basis of accounting other than generally accepted accounting principles. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Hancock County's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Hancock County's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of Hancock County's internal control over financial reporting.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with the modified cash basis of accounting such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control. We consider the deficiencies described in the accompanying schedule of findings and questioned costs to be significant deficiencies in internal control over financial reporting.

- 2008-01 Lack Of Segregation Of Duties Within The Occupational Tax Department
- 2008-02 The Airport Board Does Not Have An Accounting System
- 2008-03 The Airport Board's Bank Accounts Have Never Been Reconciled
- 2008-04 The Airport Board Does Not Maintain A Fixed Asset Listing
- 2008-05 The Airport Fund Was Not Presented In Prior Year

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control.

Report On Internal Control Over Financial Reporting
And On Compliance And Other Matters Based On An Audit Of Financial
Statements Performed In Accordance With Government Auditing Standards
(Continued)

Internal Control Over Financial Reporting (Continued)

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. However, we consider the significant deficiencies described above to be material weaknesses.

Compliance And Other Matters

As part of obtaining reasonable assurance about whether Hancock County's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under Government Auditing Standards.

The county's responses to the findings identified in our audit are included in the accompanying schedule of findings and questioned costs. We did not audit the county's responses and, accordingly, we express no opinion on them.

This report is intended solely for the information and use of management, others within the entity, the Department for Local Government, federal awarding agencies, and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Respectfully submitted,

Tichenor & Associates, LLP

Tichenor & Associates, LLP

June 26, 2009

**REPORT ON COMPLIANCE WITH REQUIREMENTS
APPLICABLE TO EACH MAJOR PROGRAM AND ON INTERNAL
CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133**

TICHENOR & ASSOCIATES, LLP
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The Honorable Jack McCaslin, Hancock County Judge/Executive
Members of the Hancock County Fiscal Court

Report On Compliance With Requirements
Applicable To Each Major Program And On Internal Control
Over Compliance In Accordance With OMB Circular A-133

Compliance

We have audited the compliance of Hancock County, Kentucky, with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement that are applicable to each of its major federal programs for the year ended June 30, 2008. Hancock County's major federal program is identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of Hancock County's management. Our responsibility is to express an opinion on Hancock County's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States; and OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Hancock County's compliance with those requirements and performing such other procedures, as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of Hancock County's compliance with those requirements.

In our opinion, Hancock County complied, in all material respects, with the requirements referred to above that are applicable to its major federal program for the year ended June 30, 2008.

Internal Control Over Compliance

The management of Hancock County is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered Hancock County's internal control over compliance with the requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of Hancock County's internal control over compliance.

Report On Compliance With Requirements
To Each Major Program And On Internal Control
Over Compliance In Accordance With OMB Circular A-133
(Continued)

Internal Control Over Compliance (Continued)

A control deficiency in an entity's internal control over compliance exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect noncompliance with a type of compliance requirement of a federal program on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to administer a federal program such that there is more than a remote likelihood that a noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the entity's internal control. We consider the deficiencies described in the accompanying schedule of findings and questioned costs to be significant deficiencies in internal control over compliance.

2008-02 The Airport Board Does Not Have An Accounting System

2008-04 The Airport Board Does Not Maintain A Fixed Asset Listing

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the entity's internal control.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. However, we consider the significant deficiencies described above to be material weaknesses.

The county's responses to the findings identified in our audit are included in the accompanying schedule of findings and questioned costs. We did not audit the county's responses and, accordingly, we express no opinion on them.

This report is intended solely for the information and use of management, others within the entity, the Department for Local Government, federal awarding agencies, and pass-through entities and is not intended to be and should not be used by anyone other than the specified parties.

Respectfully submitted,

Tichenor & Associates, LLP

Tichenor & Associates, LLP

June 26, 2009

HANCOCK COUNTY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS

For The Year Ended June 30, 2008

**HANCOCK COUNTY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS**

Fiscal Year Ended June 30, 2008

A. SUMMARY OF AUDIT RESULTS

1. The auditor's report expresses unqualified opinions on the governmental activities, business-type activities, each major fund, and the aggregate remaining fund information of Hancock County.
2. Five significant deficiencies relating to the internal control of the audit of the financial statements are reported in the Independent Auditor's Report. These deficiencies are all considered to be material weaknesses.
3. No instances of noncompliance material to the financial statements of Hancock County were disclosed during the audit.
4. Two significant deficiencies relating to the audit of the major federal awards program are reported in the Independent Auditor's Report. These deficiencies are considered to be material weaknesses.
5. The auditor's report on compliance for the audit of the major federal awards program for Hancock County expresses an unqualified opinion.
6. There are two audit findings relative to the major federal awards program for Hancock County reported in Part C of this schedule.
7. The program tested as major program was: Airport Improvement Program (CFDA # 20.106).
8. The threshold for distinguishing Type A and B programs was \$300,000.
9. Hancock County was not determined to be a low-risk auditee.

B. FINDINGS – FINANCIAL STATEMENT AUDIT

2008-01 Lack Of Segregation Of Duties Within The Occupational Tax Department

Hancock County Fiscal Court has one person in their Occupational Tax Department. The Occupational Tax Administrator receives the taxes, posts the taxes into the computer tax system, writes the transfer check to the County Treasurer, reconciles the Occupational Tax bank accounts and is the only person on the signature card at the bank. The revenue from this tax is \$2,813,267, which is 48 percent of Hancock County's total revenue of \$5,840,317 for fiscal year ended June 30, 2008. Proper internal controls require adequate design of internal controls of significant accounts or processes to include adequate segregation of duties and effective oversight by those charged with governance of the entity's financial reporting and internal control. The magnitude of the potential misstatement could be material to the financial statements and would not be prevented or detected by the entity's internal controls.

We recommend that the collection of the taxes be performed in the County Treasurer's office along with making deposits and performing bank reconciliations. The County's Occupational Tax Administrator should only post the receipts of taxes in the Occupational Tax computer system. The Occupational Tax checking and money market accounts should be closed and the deposits should be made directly to the General Fund money market account.

Response: Auditor's recommendations will be taken into consideration and all necessary corrections to satisfy this will be made.

HANCOCK COUNTY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Fiscal Year Ended June 30, 2008
(Continued)

B. FINDINGS – FINANCIAL STATEMENT AUDIT (Continued)

2008-02 The Airport Board Does Not Have An Accounting System

The Airport Board does not maintain an accounting system; the system that they use is a check book. Their system is unable to produce financial reports showing the financial status of the Airport Board or the amount of federal funds expended during any given time period. We also noted that the Airport Board does not make a monthly status report to the Fiscal Court.

We recommend that the Airport Board acquire an accounting system that can track their receipts and expenditures and is also capable of producing financial reports. We also recommend that a representative of the Airport Board make at least monthly status and financial reports to the Airport Board directors and Fiscal Court.

Response: The auditor's recommendations will be taken into consideration. Monthly status reports are currently given to the County Judge/Executive with the exception of the attachments of the financial reports, which will be given in the future. A 3rd party CPA is being considered for the accounting system.

2008-03 The Airport Board's Bank Accounts Have Never Been Reconciled

During our audit of the Airport Board we noted that their bank accounts have never been reconciled.

We recommend that the Airport Board reconcile their bank accounts promptly after they receive their bank statements each month and that the Board Chairperson review and indicate that review by signing and dating the bank reconciliations.

Response: As stated previously a 3rd party CPA is being considered for the accounting system; therefore monthly reconciliations will be done promptly.

2008-04 The Airport Board Does Not Maintain A Fixed Asset Listing

During our audit of the Airport Board we noted that they do not maintain a fixed asset listing, also the Airport Board has not adopted a policy for handling their fixed assets.

We recommend that the Airport Board maintain a fixed asset listing for their fixed assets and also adopt a fixed asset policy to define what expenditures should be capitalized and their useful lives.

Response: CPA is being considered for the fixed asset listing also.

2008-5 The Airport Board Fund Was Not Presented In Prior Year

The Hancock County Airport Fund was not presented in the prior year financial statements. This has resulted in two material adjustments to the beginning balances for the current year financial statements:

- a. \$10,735 increase in beginning cash balance for balances in the Airport Fund.
- b. \$2,898,733 increase in Capital Asset beginning balance.

HANCOCK COUNTY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Fiscal Year Ended June 30, 2008
(Continued)

B. FINDINGS – FINANCIAL STATEMENT AUDIT (Continued)

2008-5 The Airport Board Fund Was Not Presented In Prior Year (Continued)

The effect of these two material adjustments is a net increase of \$2,909,468 in the business-type activities.

We recommend the Fiscal Court ensure all funds are included in the financial statements and are properly presented.

Response: All steps are being taken to ensure that all funds for the Airport Board are included.

C. FINDINGS AND QUESTIONED COSTS – MAJOR FEDERAL AWARDS PROGRAM AUDIT
(Continued)

2008-02 The Airport Board Does Not Have An Accounting System

2008-04 The Airport Board Does Not Maintain A Fixed Asset Listing

See Section B. (Findings – Financial Statement Audit) to see comments in their entirety.

D. SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

None

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**CERTIFICATION OF COMPLIANCE -
LOCAL GOVERNMENT ECONOMIC ASSISTANCE PROGRAM**

HANCOCK COUNTY FISCAL COURT

For The Fiscal Year Ended June 30, 2008

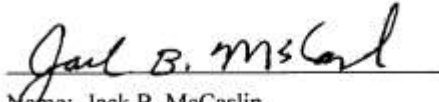
CERTIFICATION OF COMPLIANCE

LOCAL GOVERNMENT ECONOMIC ASSISTANCE PROGRAM

HANCOCK COUNTY FISCAL COURT

Fiscal Year Ended June 30, 2008

The Hancock County Fiscal Court hereby certifies that assistance received from the Local Government Economic Assistance Program was expended for the purpose intended, as dictated by the applicable Kentucky Revised Statutes.

A handwritten signature in black ink, appearing to read "Jack B. McCaslin", is written over a horizontal line.

Name: Jack B. McCaslin

County Judge/Executive

A handwritten signature in black ink, appearing to read "Melissa Carr", is written over a horizontal line.

Name: Melissa Carr

County Treasurer

